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BEFORE THE ARIZONA CORPORATION COMMISSION

KRISTIN K. MAYES

Chairman

GARY PIERCE

Commissioner

PAUL NEWMAN

Commissioner

SANDRA D. KENNEDY

Commissioner

BOB STUMP

Commissioner

Arizona Corporation Commission

DOCKETED

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IN THE MATTER OF THE APPLICATION
OF ARIZONA PUBLIC SERVICE
COMPANY FOR MODIFICATION TO THE
RESIDENTIAL DISTRIBUTED ENERGY
INCENTIVE

DOCKET NO. E-01345A-09-0338

DECISION NO. 71686

ORDER

Open Meeting
April 13, 2010
Phoenix, Arizona

BY THE COMMISSION:

FINDINGS OF FACT

1. Arizona Public Service Company ("APS" or "Company") is engaged in providing electric service within portions of Arizona, pursuant to authority granted by the Arizona Corporation Commission ("Commission").

2. On March 31, 2010, APS filed an application to modify, retroactive to March 31, 2010, its residential distributed energy ("DE") incentives that were approved in Decision No. 71459. APS requested an expedited consideration of the application.

3. The APS residential DE program, according to APS, has greatly exceeded its forecasted participation. APS believes that, given the current incentive levels and the pace of residential applications, the funding for residential incentives will probably be exhausted before June 2010.

4. APS has suggested three possible solutions. First, APS could lower the incentive amounts, thereby spreading the remaining residential incentive funds over a larger number of

1 installations. Second, the Commission could increase the Renewable Energy Standard ("RES")
2 adjustor to increase the funding available for residential incentives. Third, the Commission could
3 approve a combination of lowered incentives and an increase in the RES adjustor.

4 5. APS indicated in its filing that if the third option were chosen, in order to meet
5 customer demand at the proposed incentive of \$2.15 per installed watt, APS would need a RES
6 adjustor increase of \$25.9 million. That increase in funding would require an increase of \$1.48 in
7 the residential cap to a new cap of \$4.94 per month.

8 6. The number of residential customer DE systems increased significantly in 2009.
9 Unlike past years, the demand for residential incentives did not drop off in the first quarter of 2010
10 as it historically has in past years. The pace of residential applications for 2010 is 110 applications
11 per week, resulting in almost \$1.5 million in reservation commitments per week. APS believes
12 that the current approved incentives may exceed the level necessary to encourage customer
13 participation.

14 7. APS included in its filing a report from an outside consultant, Vermont Energy
15 Investment Corporation ("VEIC"). VEIC has been a consultant on similar topics in many states.
16 VEIC suggested an immediate reduction of the PV incentive to \$2.30 per installed watt. VEIC
17 also suggested that APS divide the remaining incentive funds equally into two funding cycles.
18 VEIC also recommended that, after the first 4 megawatts ("MW") of capacity reserved at \$2.30
19 per watt was committed, the incentive should automatically drop to \$2.10 per watt. This capacity-
20 based step-down would function independent of the calendar year.

21 8. VEIC also suggested a two-tiered PV incentive structure. In this structure, for
22 installed capacity up to 10 kilowatts ("kW"), the incentive would be the \$2.30 incentive proposed
23 by VEIC. However, for capacity greater than 10 kW, the incremental capacity would receive a
24 reduced incentive of 15 percent less than the current incentive level. In this instance, that would
25 be \$1.95 per watt.

26 9. APS has recommended the first option: a reduction in the incentive for both
27 residential grid-tied photovoltaic ("PV") systems and solar water heaters ("SWH"). The incentive
28 for grid-tied PV systems would drop from the current \$3 per watt to \$2.15 per installed watt (direct

1 current). For solar water heating, the incentive would drop from \$0.75 per first year kilowatt-hour
2 ("kWh") savings to \$0.50 per first year kWh savings. The PV and SWH technologies currently
3 claim 98 percent of the residential DE market.

4 10. APS agreed with the VEIC recommendation to split the remaining funding into two
5 funding cycles. APS also recommended, per VEIC's suggestion, that an automatic incentive
6 reduction be made after 4 MW of capacity was reserved. APS chose not to request any additional
7 funding.

8 11. Staff has reviewed the APS application and the report by VEIC.

9 12. APS' approach is to move quickly to solve an unanticipated problem that, if not
10 promptly corrected, will negatively impact the residential solar marketplace and solar industry in
11 Arizona. In lowering the incentive offered, from \$3 per watt to \$2.15 per watt, APS will increase
12 the number of residential solar systems that will qualify for the limited \$11.4 million that remains
13 in the residential incentive allocation.

14 13. Staff recommends that the Commission approve the new \$2.15 per watt PV
15 incentive as an upper limit to incentives that APS may provide. If a customer files an application
16 for a PV incentive that is less than the \$2.15 per watt, Staff recommends that APS be authorized to
17 provide that lower incentive to the customer.

18 14. By dividing the remaining funding into two portions, APS will be able to extend
19 availability of residential incentives into the critical fourth quarter of 2010. Historically, sales in
20 the fourth quarter have typically increased significantly over the previous three quarters. Without
21 such action, APS may well reach the fourth quarter with no funding left for residential projects.

22 15. Staff appreciates the recommendations of VEIC. Staff agrees with VEIC and APS
23 that the remaining residential incentive funds should be split into two funding cycles, using the
24 dates proposed by APS. The first cycle would run from the date of the Commission's order on this
25 matter to August 31, 2010, and the second cycle would run from September 1, 2010 to
26 December 31, 2010. Staff recommends that APS be allowed to use funds in the first cycle up to
27 the amount that would leave a balance of at least \$5.0 million for the second cycle.

28 ...

1 16. Staff agrees that VEIC's suggestion and APS' recommendation that there be an
2 automatic incentive reduction after a certain number of MWs of applications. However, Staff does
3 not agree that 4 MW is necessarily the correct number to trigger the automatic incentive reduction.

4 17. Staff, using the APS projected remaining funds of \$11.4 million and the
5 recommended incentive reductions, determined that only 25 percent of the remaining funds would
6 be available if the automatic reduction were to take place at a 4 MW trigger. Staff recommends
7 using a 3 MW trigger instead. This approach would allow for a better chance of the remaining
8 funds to last until year end.

9 Staff's Recommendations

10 18. Staff generally agrees with APS on its analysis of the problem and the proposed
11 solution. Staff recommends that the Commission approve the following changes to the APS 2010
12 REST Implementation Plan:

- 13 • A modification in the residential DE incentive to a maximum of \$2.15 per installed
14 watt for residential grid-tied photovoltaic systems;
- 15 • APS would be allowed to provide photovoltaic incentives at less than the maximum, if
16 requested by the customer;
- 17 • A reduction of the residential photovoltaic incentive to \$1.95 per watt after the first 3
18 MW of additional reserved capacity at the \$2.15 per watt level;
- 19 • A modification in the residential DE incentive to \$0.50 per first-year kWh savings for
20 SWH;
- 21 • A two funding cycle approach where APS shall equally divide the remaining
22 uncommitted residential incentive budget into two funding cycles, with the first cycle
23 to run from the date of the Commission's order on this matter to August 31, 2010, and
24 the second cycle to run from September 1, 2010 to December 31, 2010. Funding for
25 the second cycle shall be a minimum of \$5.0 million.
- 26 • The implementation of the residential DE incentive modifications adopted herein to be
27 retroactive to March 31, 2010.

28 19. The Commission is concerned that the APS Residential Solar Energy Incentives
could be depleted before the end of 2010, thereby leaving hundreds of Arizonans without a solar
energy option and potentially causing undesirable disruption to the solar industry. Therefore, we

1 believe that it is reasonable to require APS to implement three tranches of funding for 2010, such
2 that the first tranche would run from April 1 through July 1, 2010, the second tranche from July 2
3 through October 1, 2010, and the third tranche, if it becomes necessary, from October 2 through
4 December 31, 2010. The first two tranches would use funds from the 2010 budget, with at least \$5
5 million made available for the second tranche. Because systems usually take three months to
6 commission, we believe it is reasonable to allow APS the authority to initiate reservations in the
7 third tranche for 2011 residential compliance, with notice that PV systems reserved after
8 October 1, 2010 and before January 1, 2011 may not be funded until January 1, 2011.

9 20. The Commission is concerned that the majority of the residential incentive funds
10 paid by APS in the past year, totaling more than 90 percent of the residential incentive dollars, has
11 gone to only one technology: photovoltaics. We are further concerned that other technologies
12 such as solar water heating may be crowded-out of the funding through the current first-come first-
13 served mechanism. This could jeopardize the survival of the solar thermal industry in Arizona.
14 With this in mind, only for 2010 and only because of the current emergency, we direct APS to set
15 aside \$900,000 of the remaining residential incentive funds for solar water heating. The \$900,000
16 would be divided equally in the first two tranches. Any funds not allocated in the first two
17 tranches would be returned to the pool of residential incentives and could be used for any eligible
18 residential technology. The \$900,000 amount is roughly equivalent to the 8 percent share of
19 incentive funds that solar water heating systems have received in the past years.

20 21. The Commission is concerned about customers who were ready to submit
21 applications on March 30, 2010 at the previous incentive levels but had not submitted applications
22 until March 31 or after. The problem is that approving the full incentives for all future
23 applications will exhaust the remaining incentive funds within the next month. The Commission
24 believes it is fair to both customers and the industry to allow applications submitted to APS prior
25 to close of business on Friday, April 2, 2010, to be provided the incentives approved in the APS
26 2010 REST Plan at \$3.00 per installed watt. However, any applications received from March 31
27 through April 2, 2010 shall be paid in two installments. For grid-tied PV systems, the first
28 installment of the incentive will be paid in 2010 at \$2.15 per installed watt and the balance of the

1 incentive, or \$0.85 per installed watt, will be paid in the first quarter of 2011. For solar water
2 heaters, the first installment of the incentive will be paid in 2010 at \$0.50 per first-year kWh
3 savings, and the balance of the incentive, or \$0.25 per first-year kWh savings, will be paid in the
4 first quarter of 2011. We direct APS to calculate the costs for the second installment and include
5 those costs in the APS 2011 REST Plan budget.

6 22. The Commission believes that the APS Distributed Renewable Energy program
7 would benefit significantly from greater transparency and notice. We believe that APS should be
8 required to post on its website each week beginning on April 19, 2010, the amount of Residential
9 Up-Front Incentive ("UFI") funding remaining for the current reservation period and the number
10 of new reservations confirmed by APS in the past week along with any project cancellations that
11 occurred in the same period.

12 CONCLUSIONS OF LAW

13 1. APS is an Arizona public service corporation within the meaning of Article XV,
14 Section 2, of the Arizona Constitution.

15 2. The Commission has jurisdiction over APS and over the subject matter of the
16 application.

17 3. The Commission, having reviewed the application and Staff's Memorandum dated
18 April 2, 2010, concludes that it is in the public interest to approve the modification to the APS
19 residential distributed energy incentives, as discussed herein.

20 ORDER

21 IT IS THEREFORE ORDERED that the Arizona Public Service Company residential
22 distributed energy incentive for residential grid-tied photovoltaic systems is approved at a
23 maximum of \$2.15 per installed watt.

24 IT IS FURTHER ORDERED that Arizona Public Service Company shall develop and
25 implement three tranches of funding for 2010, such that the first tranche would run from April 1
26 through July 1, 2010, the second tranche from July 2 through October 1, 2010, and the third
27 tranche, if it becomes necessary, from October 2 through December 31, 2010.

28 ...

1 IT IS FURTHER ORDERED that the first two tranches would use funds from the 2010
2 budget, with at least \$5 million made available for the second tranche.

3 IT IS FURTHER ORDERED that if funds are exhausted after the second tranche, Arizona
4 Public Service Company shall have the authority to initiate reservations in a third tranche for 2011
5 residential compliance, with notice that PV systems reserved after October 1, 2010 and before
6 January 1, 2011 will not be funded until January 1, 2011.

7 IT IS FURTHER ORDERED that Arizona Public Service Company shall post on its
8 website each week beginning on April 19, 2010, the amount of Residential UFI funding remaining
9 for the current reservation period and the number of new reservations confirmed by APS in the
10 past week along with any project cancellations that occurred in the same period.

11 IT IS FURTHER ORDERED that Arizona Public Service Company is authorized to
12 provide photovoltaic incentives less than the maximum amount, if such an incentive is requested
13 by the customer.

14 IT IS FURTHER ORDERED that the Arizona Public Service Company residential
15 photovoltaic incentive shall be reduced to \$1.95 per watt after the first 3 MW of additional reserve
16 capacity at the \$2.15 per watt level have been committed.

17 IT IS FURTHER ORDERED that the Arizona Public Service Company residential
18 distributed energy incentive for solar water heating is approved at \$0.50 per kWh first-year
19 savings.

20 IT IS FURTHER ORDERED that the implementation of the residential distributed energy
21 incentive modifications adopted herein is retroactive to March 31, 2010, except as specified in
22 Finding of Fact No. 21.

23 IT IS FURTHER ORDERED that Arizona Public Service Company set aside \$900,000 of
24 the remaining residential incentive funds for solar water heating. The \$900,000 shall be divided
25 equally in the first two tranches. Any funds not allocated in the first two tranches would be
26 returned to the pool of residential incentives and used for any eligible residential technology.

27 IT IS FURTHER ORDERED that Arizona Public Service Company shall grant
28 applications submitted prior to close of business on Friday, April 2, 2010, the incentives approved

1 in the Arizona Public Service Company 2010 REST Plan. However, any applications received
2 from March 31 through April 2, 2010 shall be paid in two installments. For grid-tied PV systems,
3 the first installment of the incentive will be paid in 2010 at \$2.15 per installed watt and the balance
4 of the incentive, or \$0.85 per installed watt, will be paid in the first quarter of 2011. For solar
5 water heaters, the first installment of the incentive will be paid in 2010 at \$0.50 per first-year kWh
6 savings and the balance of the incentive, or \$0.25 per first-year kWh savings, will be paid in the
7 first quarter of 2011. We direct Arizona Public Service Company to calculate the costs for the
8 second installment and include those costs in Arizona Public Service Company 2011 REST Plan
9 budget.

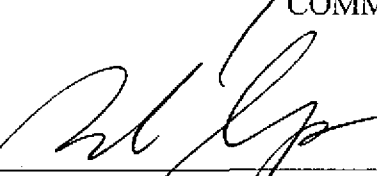
10 IT IS FURTHER ORDERED that this Decision shall become effective immediately.

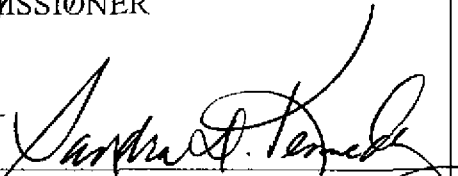
11 **BY THE ORDER OF THE ARIZONA CORPORATION COMMISSION**

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13 CHAIRMAN


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15 COMMISSIONER

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17 COMMISSIONER

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19 COMMISSIONER

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21 COMMISSIONER

22 IN WITNESS WHEREOF, I, ERNEST G. JOHNSON,
23 Executive Director of the Arizona Corporation Commission,
24 have hereunto, set my hand and caused the official seal of
25 this Commission to be affixed at the Capitol, in the City of
26 Phoenix, this 30th day of April, 2010.

27 
28 ERNEST G. JOHNSON
EXECUTIVE DIRECTOR

29 DISSENT: _____

30 DISSENT: _____

31 SMO:RTW:lhm\WVC

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